

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

ILLINOIS INDEPENDENT TELEPHONE
ASSOCIATION)

Petition for initiation and investigation of
the necessity of and the establishment of a
Universal Service Support Fund in accordance
With Section 13-301(d) of The Public Utilities
Act.)

Docket No. 00-0233

Cons.)

ILLINOIS COMMERCE COMMISSION
On Its Own Motion)

Investigation into the necessity of and, if
Appropriate, the establishment of a universal
Service support fund pursuant to Section
13-301(d) of the Public Utilities Act.)

Docket No. 00-0335

CHIEF CLERK'S OFFICE
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ILLINOIS COMMERCE COMMISSION

DIRECT TESTIMONY

OF

MICHAEL W. STOKES

ON BEHALF OF

VIOLA HOME TELEPHONE COMPANY

April 20, 2001

OFFICIAL FILE

ILL. C. C. DOCKET NO. 00-0233/0335
Viola Home
Telephone Co. REPORT NO. 1
Date 6-19-01 Reporter CB

1 **Q. Please state your name and business address.**

2 A. My name is Michael W. Stokes. My business address is 993 Clocktower Dr., Ste A,
3 Springfield, Illinois 62704.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am self-employed as a partner with Kiesling Associates LLP and am also a Certified
6 Public Accountant. In addition to our Springfield, Illinois office, the firm has offices
7 located in Wisconsin, Iowa and Colorado. The firm was founded in 1952 in Madison,
8 Wisconsin and is currently providing accounting, auditing, consulting and other financial
9 services to over 200 telecommunications and public utility entities.

10 **Q. Please outline your educational background and business experience.**

11 A. I graduated from the University of Illinois – Springfield in 1989 with a Bachelor degree
12 in Accountancy. Upon graduation, I became employed by Kiesling Associates LLP (the
13 firm) and worked there for over 4 years. My experience at the firm involved providing
14 accounting, auditing, regulatory reporting, budgeting, costing, and individual & corporate
15 income tax preparation primarily to small independent telephone companies. From 1993
16 through 1996, I was employed by McGladrey & Pullen CPA's (a big eight CPA firm) and
17 GROWMARK FS and serving also in the accounting services area. In 1996 I resigned
18 and began practicing as a sole practitioner CPA. I built a practice from 1996 to 2000 to
19 include four employees of which primarily provided audit, tax and accounting services to
20 telephone, cellular, cable TV, and contractor clients. In 2001, I merged my practice and
21 my employees with my previous employer Kiesling Associates LLP and was appointed
22 partner-in-charge of their existing Springfield, IL branch office. In this capacity, I

1 currently am responsible for day-to-day management and all audit and accounting
2 services provided from the Springfield office.

3 **Q. What is your relationship with Viola Home Telephone Company?**

4 A. As an independent CPA, I provide accounting, income tax, financial statement
5 preparation, and many other related accounting and regulatory services to the Company.

6 **Q. What is the purpose of your testimony?**

7 A. The purpose of my testimony is to present the results of an earnings analysis for Viola
8 Home Telephone Company. This analysis is being presented to determine whether the
9 Company qualifies for state Universal Service support based on its rate of return.

10 **Q. Does your testimony include any exhibits, and were these prepared by you or under
11 your direction?**

12 A. Yes, my testimony includes Viola Home Telephone Company Exhibit 1, Schedule 1.01
13 and Viola Home Telephone Company Exhibit 1, Schedule 1.02 which were prepared
14 under my direction.

15 **Q. What is the source of the amounts used in the Company's earnings analysis?**

16 A. Viola Home Telephone Company Exhibit 1, Schedule 1.01, Page 1 of 3 attached to my
17 testimony shows the results of the Company's earnings analysis. The amounts used in
18 the earnings analysis were obtained from the Company's trial balance for calendar year
19 ended December 31, 2000, except for materials and supplies, line 2, which represents a
20 13 month average. The Company has provided a copy of this trial balance report
21 December 31, 2000 to Commission Staff in support of Viola Home Telephone Company
22 Exhibit 1, Schedule 1.01.

1 **Q. Please summarize the results of the Company's earnings analysis shown on Viola**
2 **Home Telephone Company Exhibit 1, Schedule 1.01, Page 1 of 3.**

3 A. This analysis shows that the Company has a return on rate base, or rate of return (ROR)
4 of 5.95 percent. This is shown on Line 23. This corresponds to a ROR Funding
5 Deficiency Including Income Taxes in the amount of \$115,734. This amount is shown on
6 Line 28. This means that the Company has a need for state Universal Service support
7 based solely on the Company's earnings level in the amount of \$115,734. These results
8 reflect an adjustment to total operating revenues by subtracting Illinois High Cost Fund
9 support on line 15, an adjustment to net regulated plant on line 1. These adjustments will
10 be explained below.

11 **Q. Please explain the adjustment in the amount of \$75,700 that you have made to**
12 **increase net regulated plant on line 1 of the earnings analysis.**

13 A. The purpose of this adjustment is to reflect known and measurable changes that will
14 occur to Viola Home Telephone Company's plant for current projects in the first half of
15 year 2001. These adjustments are reflected on Viola Home Telephone Company Exhibit
16 1, Schedule 1.02. The first project involves a switch upgrade in the amount of \$35,000.
17 The second project involves a construction project with Midwest Cable Splicing for
18 buried fiber cable the amount of \$37,000. The last adjustment involves miscellaneous
19 materials the Company has purchased for \$3,700.

20 **Q. Let me hand you Viola Home Telephone Company Exhibit 1, Schedule 1.03 and as**
21 **you to identify it.**

22 A. This is a copy of a contract between Viola Home Telephone Company and Midwest
23 Cable Splicing, Inc. for the buried cable project.

1 **Q. Are you familiar with the signature of Raymond J. Dowsett, President of Viola**
2 **Home Telephone Company?**

3 A. Yes, and his signature appears on page 7 of the exhibit.

4 **Q. Why is the Company installing the fiber cable?**

5 A. It is an alternative toll route for Viola Home Telephone Company.

6 **Q. Has the Company already installed the switching upgrades?**

7 A. Yes.

8 **Q. Let me hand you what has been marked as Viola Home Telephone Company**
9 **Exhibit 1, Schedule 1.04, and ask you to identify it.**

10 A. This is a copy of the invoice from Nortel Networks, Inc. for the switch grade which has
11 been paid.

12 **Q. Does the Company's Trial Balance Report December 31, 2000 and Form 23A reflect**
13 **true and actual results?**

14 A. As stated in our Accountant's Report that is included in Form 23A as filed with the
15 Illinois Commerce Commission for the year 2000, we have prepared the financial
16 statements and supplementary information included in the prescribed form, Illinois
17 Commerce Commission Form 23A in accordance with Standards for Accounting and
18 Review Services issued by the American Institute of Certified Public Accountants. The
19 Company's financial statements and records are in accordance with Generally Accepted
20 Accounting Principles (GAAP) and FCC Part 32 accounting rules.

21 **Q. Are you aware of any other known and measurable changes to the Company's**
22 **actual calendar year 2000 results that would impact the earnings analysis?**

23 A. No. I am not aware of any other changes that are known and measurable.

1 **Q. Does Viola Home Telephone Company concur with Mr. Schoonmaker's recom-**
2 **mendation that its affordable rate be established as the current weighted average**
3 **rate for residential and business service?**

4 A. Yes, it does.

5 **Q. Please summarize your testimony.**

6 A. The earnings analysis for Viola Home Telephone Company shows a ROR Funding
7 Deficiency based on actual results for the year ending 12/31/00 plus known and
8 measurable changes. The amount of this deficiency is \$115,734. Therefore, based solely
9 on the results of the Company's earnings analysis, Viola Home Telephone Company
10 should receive annual state Universal Service support in the amount of \$115,734.

11 **Q. Does this conclude your direct testimony?**

12 A. Yes, it does.

Viola Home Telephone Company
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2000

<u>Line #</u>	<u>Description</u>	<u>Source</u>	<u>Amount</u>	<u>Adjustment</u>	<u>Adjusted Amount</u>
1	Net Regulated Plant	Form 23A, P 8, Net Plant	\$ 1,297,911	\$ 75,700	\$ 1,373,611
2	Materials and Supplies Inventory	Page 2, 13-Month Average	24,003		24,003
3	Customer Deposits	Form 23A, P 8, 4040	4,604	-	4,604
4	ADIT - Regulated Plant	Form 23A, P 8, 4100 + 4340	94,034	-	94,034
5	Rate Base before Working Capital	line 1 + line 2 - line 3 - line 4			1,298,976
6	Working Capital Requirement				
7	Total Operating Expenses	Form 23A, P 14, Total	525,170	-	525,170
8	Less: Depreciation Expense	Form 23A, P 13, 6560	136,637	-	136,637
9	Total WC Operating Expense	line 7 - line 8	388,533	-	388,533
10	WC OE Requirement	line 9 * 45 / 360			48,567
11	Commission-Ordered Cash Balance Requirement		-	-	-
12	Total Working Capital Requirement	line 10 + line 11			48,567
13	Total Rate Base	line 5 + line 12			1,347,543
14	Total Operating Revenues	Form 23A, P 11, Total	670,798	-	670,798
15	Less: Illinois High Cost Fund		12,000	-	12,000
16	Net Operating Revenues	line 14 - line 15	658,798	-	658,798
17	Total Operating Expenses	Form 23A, P 14, Total	525,170	-	525,170
18	Other Operating Inc and Exp - Net	Form 23A, P 15, 7100	-	-	-
19	Other Operating Taxes	Form 23A, P 15, 7240	2,776	-	2,776
20	Net Op Inc before Income Taxes	line 16 - lines 17, 18, & 19	130,852	-	130,852
21	Income Tax Expense	line 34			50,690
22	Net Operating Income	line 20 - line 21			80,162
23	Return on Rate Base	line 22 / line 13			5.95%
24	After-tax Cost of Capital				11.21%
25	Target Net Operating Income	line 24 * line 13			151,060
26	Adj to Achieve Target Return on RB	line 25 - line 22			70,898
27	Gross Revenue Conversion Factor	line 35			1.6324
28	ROR Funding Deficiency Including Inc Taxes	line 26 * line 27			115,734
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	line 20			130,852
31	Illinois Inc & Rep Tax Expense	line 30 * 7.18%			9,395
32	Net Op Inc before Fed Inc Tax	line 30 - line 31			121,457
33	Federal Income Tax Expense	line 32 * 34.00%			41,295
34	Total Imputed Income Tax Expense	line 31 + line 33			50,690
35	Gross Revenue Conversion Factor	1 / ((1 - .0718) * (1 - .34))			1.6324

Viola Home Telephone Company
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2000
Material & Supplies Worksheet and Other Information

Line #

1	December-99	\$20,271
2	January-00	\$20,271
3	February-00	\$20,271
4	March-00	\$20,271
5	April-00	\$20,271
6	May-00	\$20,271
7	June-00	\$20,271
8	July-00	\$20,271
9	August-00	\$20,271
10	September-00	\$20,759
11	October-00	\$20,759
12	November-00	\$20,759
13	December-00	\$67,321
14	13 Month Average	\$24,003

Sale/Lease Back Arrangement
☒

The company does not have any sale(s)/lease back arrangement.

☐

The company does have sale(s)/lease back arrangement and has provided additional information to staff.

Lease Agreement with Affiliates
☒

The company does not have any lease agreements with affiliates.

☐

The company does have lease agreements with affiliates and has provided additional information to staff.

Trial Balances

The Company has provided a copy of its 12/31/2000 trial balance in support of the attached exhibits.

Viola Home Telephone Company
 Illinois Universal Service Funding Calculation
 Based upon ICC Form 23A Report Data for December 31, 2000
 Operating Revenues By Category

<u>Line #</u>		<u>Source</u>	<u>Amount</u>
		Form 23A, P 10, Total Local	
1	Local Revenues	Network Service Revenues	\$ 46,529
2	State Subscriber Line Charges	Trial Balance 12/31/00	\$ 92,438
3	State Access Revenues	Trial Balance 12/31/00	\$ 203,651
4	State High Cost Support	Exhibit X, Line 15	\$ 12,000
5	State Special Access Revenues	Trial Balance 12/31/00	\$ 16,946
6	Total State Access & Local Revenues	Sum (Ln 1 - 5)	\$ 371,564
7	Federal Subscriber Lines Charges	Trial Balance 12/31/00	\$ 38,125
8	Federal Access Revenues	Trial Balance 12/31/00	\$ 139,068
9	Federal High Cost Support	Trial Balance 12/31/00	\$ 97,356
10	Federal Special Access Revenues	Trial Balance 12/31/00	\$ 1,411
11	Total Federal Access Revenues	Sum (Ln 7 - 10)	\$ 275,960
12	Misc Revenues	Trial Balance 12/31/00	\$ 23,274
13	Total Operating Revenues	Ln 6 + Ln 11 + Ln 12	<u>\$ 670,798</u>

Viola Home Telephone Company
Summary of Adjustments

	<u>Dr.</u>	<u>Cr.</u>
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RTB Stock		none
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To record RTB Class B stock in rate base.

Adjustment 2

To record Midwest Cable Splicing, Inc. contract dated January 16, 2001 for fiber route project to begin approximately May 2001.

attached	\$	37,000
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Adjustment 3

To record Materials & Supplies purchased for the above contract which was billed in April from another company.

attached	\$	3,700
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Adjustment 4

To record Nortel Networks contract for DMS-10 SR-ten switching equipment (not delivered as of 12/31/00).

Contract amount - detail

attached	\$	35,000
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	<u>\$</u>	<u>75,700</u>
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APR -03' 01(TUE) 13:29 VIOLA HOME TELEPHONE

Miscellaneous Construction Work and Maintenance Services Contract

Contract Form 773NRUS
June 1998

Telephone Company: Viola Home Telephone Company
Telephone Company Designation: IL623
Contractor: Midwest Cable Splicing, Inc.
Contract No.: 2001-01
Contract Date: January 16, 2001
Contract Amount: \$ 37,000.00

MISCELLANEOUS CONSTRUCTION WORK AND MAINTENANCE SERVICES CONTRACT

SECTION 1

W.O. Number 2001-01 (Enter this number on all attachments, invoices and related correspondence.)

This Contract is entered into this 16th day of January, 2001 between _____

Midwest Cable Splicing, Inc.

(Hereinafter called "Contractor"). (Contractors' License No.) N/A

Issuance State N/A Expiration Date N/A

of 1828 County Road 330, P.O. Box 285
(Mailing Address)

Jackson Missouri 63755-0285
(City) (State) (Zip)

and Viola Home Telephone Company
(Hereinafter called "Owner").

PROJECT

1. Description of work:
Provide construction for a fiber cable to complete a ring with Reynolds Telephone Company.

(Hereinafter called the "Project").

Indicate if drawings, specifications, or other further description is attached and made part of this agreement:
(Check One) NO YES X (See Attachment A.)

2. Project is for: (Check One) Construction X Maintenance _____
3. Evidence of insurance is required (See Section III).
4. The Owner will furnish material? (Check One) NO YES X (See Attachment C and D)
5. All work on this Contract will be performed in the Owner's exchange(s) of Viola and GTE's Mathersville exchange and Reynold's located in Mercer County Illinois

APR. -03' 01 (TUE) 13:30 UIOLA HOME TELEPHONE

TEL:3095962079

P.004

6. The method of payment for performance shall be:
(Specify rate(s))

Hourly basis _____

Lump-Sum (Explain as necessary) _____

Unit basis (Describe unit(s)) Labor Only for the following units: BD, BFO, BM and W

NO PAYMENT SHALL BE DUE UNDER THIS AGREEMENT WHILE THE CONTRACTOR IS IN DEFAULT OF ANY PROVISION HEREOF.

7. The maximum amount of this Contract shall be \$ 37,000.00. Payment shall be due and payable in accordance with the following schedule:
By weekly tab sheets submitted and invoicing prepared for payments due within 30 days of receipt.

A 10% retainage will be held until final inspection and cleanup are satisfactory to the Owner.

Invoices are to be submitted to:

Michael S. Freeman
C/o Communications Engineers, Inc.
3015 Stanton Ave.
Springfield, IL 62703

A DULY EXECUTED FORM 743NRUS, CERTIFICATE OF CONTRACTOR AND INDEMNITY AGREEMENT, SHALL ACCOMPANY THE FINAL INVOICE. (A COPY IS ATTACHED AND TO BE REMOVED FROM CONTRACT AND RETAINED FOR SUBMISSION WITH FINAL INVOICE.)

8. The Contractor shall begin performance of this Contract no later than April 2, 2001 and shall complete performance no later than June 1, 2001 which totals 45 construction days excluding Saturdays, Sundays, holidays and automatic time extensions for bad weather days.
9. A time extension will be granted for delays beyond the control of the contractor. The contractor must request the time extension in writing within two weeks of the event that causes the delay.
10. Liquidated damages in the amount of Five hundred dollars (\$500.00) per day for time extending beyond the completion date, including approved time extensions, will be deducted from any moneys due the contractor for final payment.

ATTACHMENT A

PROJECT DESCRIPTION

This construction project consists of the following outside plant activity:

Construction of a buried 24 fiber optic cable and placement of a 1 1/2" innerduct for all locations requiring conventional or directional boring.

The buried fiber cable will be placed to a depth of 42". The boring minimum depths will be 54" below the base of roads, ditches, etc.

The Owner will be responsible for all of the pedestal stenciling, splicing and testing of the buried cables, either by their own forces or under separate contract. Any sheath faults or deficiencies in material or workmanship found during the splicing operation will be the responsibility of the Contractor that provided construction under this contract to remedy.

The Owner and/or his representative shall inspect and/or observe the following:

- 1) Trenches before back filling.
- 2) All cable damage before repair.

Any cable damaged by the Contractor shall be replaced, at his expense, within 5 working days unless the Owner approves additional delay.

All Public and Private Right-of-Ways are to be considered "Reduced and Restricted Construction Corridor". Cables placed on State Right-of-Way are required to be within eight (8) feet of the Right-of-Way line and in accordance with the appropriate State Highway Permits.

The Owner has obtained State, Railroad, Township, and any required private right-of-way where applicable. Construction must conform to any of the easement requirements mentioned.

Foreign utilities, such as water, gas, electric, Verizon (formerly GTE) telephone cables are not shown on all construction sheets and will be the responsibility of the Contractor to arrange to have located.

APR. -03' 01 (TUE) 13:31 VIOLA HOME TELEPHONE

TEL: 3095962079

P. 006

DISK : MSFZILARD

FILE : ANCHORAGE

DATE: 01/11/01

**VIOLA HOME TELEPHONE COMPANY
FIBER RING PROJECT
OSP CONTRACT NUMBER : 2001-01**

ATTACHMENT E

[illegible]

APR. -03' 01(TUE) 13:32 VIOLA HOME TELEPHONE

TEL:3095962079

P.007

I have read, understand, and agree to all portions of this Contact.

Midwest Cable Splicing, Inc.

(Contractor)

By

Norbert L. Neeninger

(Norbert L. Neeninger)

Title President

Date

1/18/2001

Viola Home Telephone Company

(Owner)

By

Raymond J. Dowsett

Title

President

Date

2/12/2001

NORTEL NETWORKS

4010 East Chapel Hill-Nelson Highway
Research Triangle Park, NC 27709
MS D17/03/0F2
Tel 919.997.4428
Fax 919.997.4495

www.nortelnetworks.com

Mike Bass
Manager, Contracts

April 10, 2000

Ms. Carol Peterson
Manager
Viola Home Telephone Co.
1303 16th Avenue
Viola, IL 61486

Dear Ms. Peterson:

Enclosed please find one fully executed original of the SR-Ten Program Agreement between Viola Home Telephone Company and Nortel Networks Inc.

Thank you for your continued support of Nortel Networks Inc.'s products and services. If you have any questions, please feel free to contact me at (919) 997-4428.

Sincerely,

Mike Bass

Contracts Management, Nortel Networks Inc.

Enclosure

Viola Home Telephone
Company
Exhibit 2.04

Page 2

Section B - GENERIC AND GENERIC HARDWARE FEES (required):

	Price or Fee, as Applicable	Number of Offices	Extended Price or Fee
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LEVEL 2 - A total of two (2) sets of spares are included: one (1) for the SSOs and one (1) for the HSO

For Networks with 2 to 4 SSOs, enter the number of SSOs in the space corresponding to the number of equipped lines in such Office(s):

Small SSO:	\$74,800	x _____	= _____
Total number of NT4T04 and NT4T05 packs = 4 or less.			
Medium SSO:	\$81,700	x _____	= _____
Total number of NT4T04 and NT4T05 packs = 8 or 8.			
Large SSO:	\$94,800	x _____	= _____
Total number of NT4T04 and NT4T05 packs = 10 to 20 or NT8T04 packs > 0.			

LEVEL 3 - A total of three (3) sets of spares are included: two (2) for the SSOs and one (1) for the HSO

For Networks with 5 to 12 SSOs, enter the number of SSOs in the space corresponding to the number of equipped lines in such Office(s):

Small SSO:	\$72,200	x _____	= _____
Total number of NT4T04 and NT4T05 packs = 4 or less.			
Medium SSO:	\$78,900	x _____	= _____
Total number of NT4T04 and NT4T05 packs = 6 or 8.			
Large SSO:	\$91,600	x _____	= _____
Total number of NT4T04 and NT4T05 packs = 10 to 20 or NT8T04 packs > 0.			

LEVEL 4 - A total of four (4) sets of spares are included: three (3) for the SSOs and one (1) for the HSO

For Networks with 13 to 16 SSOs, enter the number of SSOs in the space corresponding to the number of equipped lines in such Office(s):

Small SSO:	\$69,800	x _____	= _____
Total number of NT4T04 and NT4T05 packs = 4 or less.			
Medium SSO:	\$76,100	x _____	= _____
Total number of NT4T04 and NT4T05 packs = 6 or 8.			
Large SSO:	\$88,400	x _____	= _____
Total number of NT4T04 and NT4T05 packs = 10 to 20 or NT8T04 packs > 0.			

Additional SSO spares:

Enter the number of SSOs for which Purchaser desires additional spares:	\$9,500	x _____	= _____
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Remote Office(s):

If desired, enter the number of Remote Offices in the space provided corresponding to the type of remote:

Star Hub	\$7,600	x _____	= _____
Star Module	\$7,600	x _____	= _____
RSCS-840, RLCM-840, OPM-840 and/or OPAC-840	\$7,800	x _____	= _____
RSCS-1920 and/or RSCS-3200	\$10,600	x _____	= _____

ESMA(s):

If desired, enter the number ESMA modules in the space provided:

ESMA Module	\$7,800	x _____	= _____
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Installation for Generic and Generic Hardware:

If Purchaser elects to purchase installation in conjunction with: Generics and Generic Hardware, enter the total number of Offices in the space corresponding to the Office type:

Installation of Generics and Generic Hardware for Host Office and SSOs	\$7,000	x 1	= \$7,000
Installation of Generics and Generic Hardware for Remote Offices	\$2,000	x _____	= _____

New Customer Sign-On Bonus:

Sign-On Bonus for Host Office (HSO, SA or LCC) and SSOs only	(\$16,000)	x 1	= (\$16,000)
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☐ Check here to request Netel scheduling of Generics and Generic Hardware in the above Offices.

Generic and Generic Hardware Fee	= \$105,000
Invoice amount for Generics and Generic Hardware Fee	= \$35,000

Attachment I - SR-Ten Program Terms and Conditions

1. **TERM** - The term of the SR-Ten Program shall become effective upon full execution by both parties of the Order Form ("Effective Date") and shall continue in effect through December 31, 2002 ("Term").
2. **DEFINITIONS** - The following capitalized terms shall be defined as follows:
 - a. "Bay Products" shall mean those hardware and software components associated with Nortel Networks' BayStack 310-24T Switch and Remote Access Server Series 2000 or successors thereto.
 - b. "CALEA" shall mean the Communications Assistance for Law Enforcement Act, 47 U.S.C. Sections 1001-1010.
 - c. "Feature Hardware" shall mean Hardware designated by Nortel Networks which is required to support a specific Optional Software Feature only.
 - d. "Generic(s)" shall mean Nortel Networks' generally available generic Software releases, applicable to a particular DMS-10 office and scheduled for delivery and/or Installation, as applicable, pursuant to this SR-Ten Program. Optional Software Features shall not be included within this definition of Generics.
 - e. "Generic Hardware" shall mean the DMS-10 family Hardware, Bay Products and Vendor Items, designated by Nortel Networks that is required to be installed in order for a specific Generic to function. Generic Hardware does not include Hardware that is required for the deployment of individual Optional Software Features, including the CALEA Software Feature. Generic Hardware shall be identified by Nortel Networks for each Generic in Nortel Networks' then-current DMS-10 Feature Guide or during the customer information ("CI") process.
 - f. "Hardware" shall mean the hardware components, excluding Vendor Items, associated with Nortel Networks' DMS-10 family switching systems.
 - g. "Host Office" shall mean Host Switching Office ("HSO"), Stand-Alone Office ("SA"), or Large Cluster Controller ("LCC"). An HSO or LCC may have one or more Satellite Switching Offices ("SSO") associated with it.
 - h. "Installation" shall mean installation of the Hardware and Generics provided hereunder.

- i. "Office(s)" shall mean the Host Office(s), SSO(s) and Remote Office(s) containing a DMS-10 family switching system which are listed on the Order Form attached hereto and identified by Purchaser as included in the SR-Ten Program.
- j. "Optional Software Features" shall mean any Software features which are licensed separately from a Generic by payment by Purchaser of license fees on a feature-by-feature basis upon activation and which may require additional Feature Hardware for specific feature deployment. Optional Software Features may include the CALEA Software Feature.
- k. "Remote Office(s)" shall mean any Office(s) containing any of the following products: Remote Line Concentrating Module ("RLCM"), Remote Switching Center Sonet ("RSCS"), Outside Plant Module ("OPM"), Outside Plant Access Cabinet ("OPAC"), DMS-10 Star Hub ("Star Hub") and DMS-10 Star Module ("Star Module").
- l. "Software" shall mean computer programs consisting of hard-wired logic instructions and instruction sequences in machine-readable code residing in system memories which provide basic logic, operating instructions and user-related application instructions and documentation used to describe, maintain and use the programs.
- m. "Vendor Items" shall mean those Hardware components which Nortel Networks designates as having been supplied to Nortel Networks by any third party, including, but not limited to, other divisions and/or parents, subsidiaries, or affiliates of Nortel Networks.

3. SR-TEN PROGRAM

- a. PREREQUISITE - Only Offices which currently have the 400E Series Central Processing Unit ("CPU") and 400 Series Network are eligible to be included in the SR-Ten Program provided hereunder. As of the Effective Date, an Office(s) must have Generic 412.10 or 412.20 in service, contain all the prerequisite Hardware and Software required for Generic 412.10 as listed in Nortel Networks' DMS-10 Feature Guide, or Purchaser shall have included the right to use fees through the 412.10 Generic for each Host Office listed on the Order Form by completing the appropriate box(es) on the Order Form in order for the Office to be included in the SR-Ten Program. Only one (1) HSO, SA or LCC shall be included in this Contract. If Purchaser has more than one (1) HSO, SA or LCC, a separate Contract will need to be completed. Purchaser's Remote Office(s) and Subscriber Module Access-Enhanced ("ESMA") peripherals may be included in the SR-Ten Program provided

the Host Office or SSO associated with any such Remote Office(s) and ESMA(s) is included in the SR-Ten Program.

- b. GENERIC - The SR-Ten Program provides for one Generic delivery for each Office during each twelve month period of the Term, beginning upon the Effective Date, with a total of three (3) Generics to be delivered during the Term, provided Purchaser may not select a Generic higher than six (6) consecutive Generics released subsequent to Generic 412.20 should Nortel Networks, in its sole discretion, release more than three (3) Generics during the Term.

Purchaser may either elect to have Nortel Networks automatically schedule Generic deliveries for Purchaser's Office(s) ("Auto Schedule Option") or elect to schedule its own Generics. If Purchaser elects the Auto Schedule Option, Purchaser shall indicate such election on the Order Form, and Nortel Networks shall notify Purchaser at least two (2) months prior to the scheduled delivery date. Upon such notification from Nortel Networks, Purchaser shall have ten (10) days to either accept such scheduled date or propose an alternate date to be mutually agreed upon by the parties. If Purchaser does not elect the Auto Schedule Option, Purchaser shall submit a written request to schedule a Generic delivery to the appropriate Nortel Networks regional sales office at least three (3) months prior to the requested date of delivery.

- c. GENERIC HARDWARE AND SPARES FOR GENERIC HARDWARE - Generic Hardware for the applicable Generics shall be provided by Nortel Networks at no charge during the Term. In addition, for each Office where an existing circuit pack is upgraded to a later vintage and for which spare(s) is to be provided as set forth on the Order Form, Nortel Networks shall provide one (1) spare circuit pack of the applicable upgraded vintage to Purchaser at no charge during the Term.

Purchaser shall return to Nortel Networks all circuit packs and 400E Series CPU(s) replaced in accordance with this Section 3(c). If Purchaser selects Installation by Nortel Networks of Generics and Generic Hardware, as described in Section 4(e) below, then Nortel Networks shall be responsible for deinstallation and shipping of the circuit packs and/or 400E Series CPU. If Purchaser waives Installation by Nortel Networks, then Purchaser shall be responsible, at Purchaser's risk and expense, for deinstallation and shipping of the circuit packs and/or 400E Series CPU to Nortel Networks. Purchaser shall return the circuit packs and/or 400E Series CPU to Nortel Networks within ninety (90) days of delivery of the Generic Hardware to the following address:

Nortel Networks RMR Center
2102 Tobacco Road
Durham, NC 27704

- d. EXPANDED NETWORK OPTION - Purchaser may elect to purchase a DMS-10 500 Series Expanded Network ("Expanded Network") for some or all of the Offices listed in Section A. Purchaser shall indicate its option to purchase the Expanded Network by identifying the applicable Offices in Section C on the Order Form and entering the number of network ports (192, 256 or 320 network ports) being ordered for each Office listed. Nortel Networks shall deliver one (1) Expanded Network, in a configuration to provide the number of network ports as indicated on the Order Form, for each Office listed under Section C. Such Expanded Network(s) shall be delivered concurrently with the delivery of the 501 Generic to Purchaser's Office(s). With respect to spares, Nortel Networks shall provide only one (1) spare for each network circuit pack as determined by Nortel Networks to be critical to the Expanded Network ("Critical Spares").

If Purchaser selects the Expanded Network, Purchaser shall return to Nortel Networks the 400E Series Network(s) being replaced by the Expanded Network. Purchaser shall enter the number of 400E Series Network Groups Purchaser being returned to Nortel Networks ("Trade-In Networks") on the appropriate line of the Order Form under Section C.

If Purchaser selects the Expanded Network, Nortel Networks shall install such Expanded Network(s) and Nortel Networks shall be responsible for deinstallation and shipping of the Trade-In Network(s).

- e. INSTALLATION - Purchaser may purchase Installation associated with Generics and Generic Hardware. If Purchaser selects the Expanded Network, Purchaser shall be required to purchase Nortel Networks Installation for the Expanded Network.

The charge for Installation of Generics and Generic Hardware shall be Seven Thousand Dollars (\$7,000.00) per Host Office or SSO and Two Thousand Dollars (\$2,000.00) per Remote Office. Purchaser shall indicate its selection to purchase Installation of Generics and Generic Hardware for each applicable Office hereunder by completing the appropriate Installation option and including the price for Installation of Generics and Generic Hardware on the Order Form.

The charge for Installation of the Expanded Network shall be either (i) Thirty Thousand Dollars (\$30,000.00) per Office if Purchaser also selects Installation by Nortel Networks of Generics and Generic Hardware on the Order Form or (ii)

Thirty Three Thousand Dollars (\$33,000.00) per Office if Purchaser does not select Installation by Nortel Networks of Generics and Generic Hardware on the Order Form.

When Installation is being purchased pursuant to this Contract, Purchaser shall be responsible for having the Installation site ready on time and shall reimburse Nortel Networks for any additional expense incurred by Nortel Networks as a result of Purchaser's failure in this respect. Any Installation sold pursuant to this Contract shall be performed in accordance with Nortel Networks' standard installation procedures and manuals. Upon completion of Installation, Nortel Networks shall perform its standard test procedures and shall certify to Purchaser that the Generics and/or Generic Hardware are ready to be placed into service. Failure of Purchaser to notify Nortel Networks of any deficiencies within five (5) days of receipt of such certification by Purchaser shall be deemed to be final acceptance by Purchaser. In the event that Installation is not purchased pursuant to this Contract, any Generics and/or Generic Hardware delivered hereunder shall be deemed to be finally accepted upon receipt by Purchaser unless written notification of any reason for non-acceptance is received by Nortel Networks within a three (3) day period thereafter.

- f. TECHNICAL ASSISTANCE - During the Term, for Purchaser's Offices, Nortel Networks shall provide at no additional charge Emergency Technical Assistance Service ("ETAS"), including off-site investigation and resolution of emergency conditions; non-emergency Technical Assistance Service ("TAS"), including off-site investigation and resolution of non-emergency service-affecting conditions; and patch administration service, including off-site downloading and application of Software patches. Such ETAS and TAS shall consist of the following: response to Purchaser's queries; assistance in identifying errors in Purchaser's methods and/or procedures; assistance in identifying, to the extent reasonably feasible, any failure related to the interface between Nortel Networks' Hardware and Software and another vendor's equipment; and post-warranty support to troubleshoot failures related to Nortel Networks' Hardware and/or Software. Such ETAS and TAS shall not include support for retired Software, support for discontinued Hardware, assistance with translations and implementation of new features, support for Bay Products provided hereunder and the charges for labor, travel and living expenses associated with any on-site ETAS and TAS if such on-site ETAS or TAS is requested by Purchaser.
- g. DOCUMENTATION - With the delivery of each Generic, including each delivery of Generic Hardware as provided for herein, Nortel Networks shall provide

Purchaser with two (2) sets of Nortel Networks' standard documentation associated with such Generic and/or Generic Hardware.

- h. INTRODUCTORY SOFTWARE - During the Term, should Purchaser license Optional Software Feature(s) for its Office(s), Purchaser shall receive a twenty percent (20%) discount off Nortel Networks' then-current list fee. Optional Software Features shall be quoted in a separate quote to Purchaser and Purchaser shall issue a separate purchase order for such Optional Software Features. During the Term, there shall be no engineering activation fees in conjunction with the license of such Optional Software Features.
- i. ADDITIONAL GENERICS - During the Term, Purchaser may request, for each Office, additional Generic(s), beyond the three (3) Generics to be provided pursuant to Section 3(b) above, provided Purchaser may not select a Generic higher than six (6) consecutive Generics released subsequent to Generic 412.20 should Nortel Networks, in its sole discretion, release more than three (3) Generics during the Term ("Additional Generic(s)"). Nortel Networks shall provide such Additional Generic(s) and Purchaser shall be responsible only for payment of the then-current Installation and engineering charges for such Generic.
4. PRICING - The prices and fees under the SR-Ten Program shall be fixed during the Term. The "Generic and Generic Hardware Fee" shall be set forth on the Order Form attached hereto and shall include the license fees and prices, as applicable, for the Generics, Generic Hardware, and associated engineering ("Engineering") provided pursuant to the SR-Ten Program. Installation associated with Generics and Generic Hardware, may be selected by Purchaser pursuant to Section 3(e) above and included in the Generic and Generic Hardware Fee if such selection is made. The Generic and Generic Hardware Fee does not include the price for any Feature Hardware. The price for Feature Hardware or additional Hardware ordered by Purchaser shall be at Nortel Networks' then-current price therefor and shall include Engineering and Installation charges as identified by Nortel Networks.

The "Expanded Network Option Fee" shall be set forth on the Order Form attached hereto and shall include the prices and fees for the Expanded Network Hardware, associated Engineering and Installation provided pursuant to Section 3(d) and 4(e) above and any credits for Trade-In Networks.

The "Total Program Fee" shall be set forth on the Order Form and consists of the sum of the Generic and Generic Hardware Fee and the Expanded Network Option Fee, if any.

Nortel Networks shall review the information provided on the Order Form attached hereto, and if the information provided is incorrect or inconsistent with Nortel Networks' records, return a corrected Contract, including revised Order Form, to Purchaser for its execution.

5. **ACCEPTANCE** - NOTWITHSTANDING ANY TERMS, INCLUDING ANY DIFFERENT, INCONSISTENT OR ADDITIONAL TERMS CONTAINED IN ANY PURCHASE ORDER ISSUED BY PURCHASER, PURCHASER, BY ACCEPTING DELIVERY OF THE GENERICS AND HARDWARE DESCRIBED HEREIN AND/OR BY ISSUING ANY PURCHASE ORDERS FOR THE GENERICS AND HARDWARE AND/OR BY SIGNING THE ORDER FORM ATTACHED HERETO AGREES TO THE TERMS AND CONDITIONS OF SALE SET FORTH IN THIS CONTRACT. ANY DIFFERENT, INCONSISTENT OR ADDITIONAL TERMS SET FORTH BY PURCHASER IN ANY PURCHASE ORDER ISSUED BY PURCHASER OR OTHER WRITTEN ACCEPTANCE OF THIS OFFER, OR OTHERWISE, ARE HEREBY DEEMED TO BE SEASONABLY OBJECTED TO BY NORTEL NETWORKS.
6. **DELIVERY** - Generics, Generic Hardware and Expanded Network(s), as applicable, shall be delivered to the Installation site or other location specified by Purchaser and agreed to by Nortel Networks. Nortel Networks will prepay the applicable freight charges and include such charges in Purchaser's invoice. After a Generic delivery has been scheduled, if Purchaser notifies Nortel Networks to delay the shipment of the Generics and Hardware and/or if adequate facilities for moving the Generics and Hardware to Purchaser's equipment room are not available, Purchaser agrees to pay all storage and additional handling costs associated with such delays.
7. **PAYMENT TERMS** - Nortel Networks shall invoice one-third (1/3) of the Total Program Fee upon shipment of each of the first, second and third Generics to the Host Office. Should Purchaser request Additional Generics pursuant to Section 3(i), Nortel Networks shall invoice the associated Installation and engineering charges upon shipment of the applicable Generic to the Host Office.

Should Purchaser choose to complete payment prior to shipment, no penalties for payment in advance shall be assessed nor shall any additional discounts be applied. Nortel Networks shall by March 31, 2003 invoice Purchaser for the Total Program Fee, less any amounts paid for by Purchaser, regardless of the number of Generics Nortel Networks shall have delivered.

Invoices are due and payable within thirty (30) days of Purchaser's receipt thereof. All amounts past due over thirty (30) days shall bear interest from the due date until paid at the rate of one and one half (1.5%) percent per month (or such lesser rate as may be the maximum permissible rate under applicable law).

8. **TAXES** - The prices set forth in this Contract do not include any applicable taxes. Purchaser shall promptly reimburse Nortel Networks, upon demand, or shall pay directly, if so requested by Nortel Networks, all taxes and charges including without limitation penalty and interest, imposed by any federal, state, or local governmental or taxing authority, relating to the purchase, ownership, possession, use, operation or relocation of Hardware purchased and/or Software licensed, excluding, however, all taxes computed upon the net income of Nortel Networks.
9. **RISK OF LOSS AND TITLE** - Risk of loss or damage shall pass to Purchaser when Nortel Networks makes delivery to the Installation site or other delivery location specified by Purchaser. Title to the Hardware (excluding Software) shall pass to Purchaser upon Purchaser making final payment of the Total Program Fee and any additional monies which may be due. If Purchaser selects the Expanded Network, title to the Trade-In Network(s) shall pass to Nortel Networks either upon the date Nortel Networks deinstalls and removes such equipment or upon the date Nortel Networks receives delivery of the Trade-In Networks.
10. **SOFTWARE LICENSE** - Purchaser acknowledges that the computer Software furnished by Nortel Networks may contain computer programs ("Third Party Software") which have been supplied by, and are proprietary to, third party vendors ("Third Party Software Vendor"). Purchaser is hereby granted a nonexclusive paid-up license to use the Software only in conjunction with Purchaser's use of Purchaser's DMS-10 family switching system while such DMS-10 family switching system is in service, as it may be repaired or modified from time to time, but not otherwise. With respect to any Third Party Software, in addition to the terms and conditions herein, Purchaser shall abide by any additional terms and conditions provided by Nortel Networks to Purchaser. As a condition precedent to entering into this Contract with Purchaser and the supplying of Software pursuant hereto, Nortel Networks requires Purchaser to give proper assurances to Nortel Networks for the protection of the Software. Accordingly, Purchaser agrees that the Software to be provided to it by Nortel Networks under this Contract or any renewals, extensions, or expansions thereof, or in implementation of any of the foregoing, shall, as between the parties hereto, be treated as the exclusive property of Nortel Networks or its supplier

(which may include the applicable Third Party Software Vendor, and/or Nortel Networks Corporation ("Corporation"), as appropriate), and as proprietary and a TRADE SECRET of Nortel Networks or such supplier, as appropriate, and Purchaser shall: (a) use its best efforts to hold the Software in confidence for the benefit of Nortel Networks or such supplier, as appropriate; (b) utilize the Software solely in conjunction with the related DMS-10 family switching system as it may be repaired or modified from time to time; (c) not provide or make the Software available to any person except to its employees on a 'need to know' basis; (d) not modify, reverse engineer or decompile the Software; (e) not reproduce or copy the Software in whole or in part except as authorized in writing by Nortel Networks; (f) issue adequate instructions to all appropriate persons and take all actions reasonably necessary to satisfy Purchaser's obligations under this license; and (g) forthwith return to Nortel Networks any magnetic tape, disc, semiconductor device or other memory device or system and/or documentation or other material, including, but not limited to, all printed material furnished by Nortel Networks to Purchaser which has been replaced, modified or updated. The obligations of any Purchaser hereunder shall not extend to any information or data relating to the Software which is now available to the general public or becomes available by reason of acts or failures to act not attributable to such Purchaser. Neither Purchaser nor any successor to Purchaser's title in the applicable DMS-10 family switching system shall have the right to (a) assign this license as to the applicable Software to any other party who acquires legal title to such DMS-10 family switching system, or (b) sublicense the rights herein granted as to such Software to any person who subsequently acquires the right to use such DMS-10 family switching system, unless agreed to in writing by both Nortel Networks and Purchaser. Notwithstanding anything in this Contract to the contrary, it is understood that Purchaser is only receiving a non-exclusive paid-up license to use the Software in connection with Purchaser's use of the DMS-10 family switching system while such system is in service as it may be repaired or modified from time to time but not otherwise and is receiving no title or ownership rights to such Software, which rights shall remain in Nortel Networks or such supplier, as appropriate. Purchaser agrees to defend, indemnify and hold harmless Nortel Networks for any loss or damage resulting from a breach of this Section 10.

11. **WARRANTIES** - Nortel Networks warrants that the Hardware and/or any Installation sold under this Contract will, under normal use and service, be free from defective materials and faulty workmanship for a period of twelve (12) months from the date of shipment applicable to the Hardware and/or Installation ("Warranty Period"). Nortel Networks' sole obligation and Purchaser's sole remedy under the warranty are the replacement or repair, at Nortel Networks'

option, of the defective component, or redoing the faulty Installation. Nortel Networks warrants that Generics provided hereunder shall perform for a period of twelve (12) months from the date of delivery of such Generic ("Generic Warranty Period") substantially in accordance with the applicable Nortel Networks specifications. Nortel Networks warrants that Software for Bay Products ("Bay Software") shall perform for a period of three (3) months from the date of delivery of such Software ("Bay Software Warranty Period") substantially in accordance with the applicable specifications. In the event the Generic and Bay Software fails to so perform, Purchaser's sole remedy shall be to have Nortel Networks correct such failure. Such obligations and remedies are conditioned upon (a) the Generics, Bay Software, Hardware and Installation not having been altered, mishandled, misused (including use in conjunction with equipment electrically or mechanically incompatible or of inferior quality or performance), improperly stored, operated or repaired, damaged by fire, explosion, power failure or any act of nature or the Installation redone by any party other than Nortel Networks, and (b) notice of the defect having been received by Nortel Networks during the Warranty Period, Generic Warranty Period or Bay Software Warranty Period, as applicable. No portion of the Generics, Bay Software or Hardware shall be returned to Nortel Networks without Nortel Networks' prior written consent. The repair or replacement of defective components, the redoing of any Installation or the correction of any Generics or Bay Software shall not extend the Warranty Period, Generic Warranty Period or Bay Software Warranty Period, as applicable. This warranty does not apply to components of the Hardware which are normally consumed in operation or which have a normal life inherently shorter than the Warranty Period or which are manufactured by any manufacturer or supplier other than Nortel Networks or Corporation. With respect to Vendor Items supplied hereunder, the warranty of the manufacturers or supplier of such Vendor Item, if any, applicable to such components shall apply. Nortel Networks will not be responsible for any warranty offered by Purchaser to any of its subscribers with respect to the performance of any portion of the Generic, Bay Software and/or Hardware, and Purchaser shall indemnify Nortel Networks with respect to any additional warranty Purchaser provides its subscribers if any such subscriber makes a claim against Nortel Networks relating to the Generics, Bay Software, Hardware or Installation purchased or licensed under this Contract.

Purchaser warrants to Nortel Networks that Purchaser has good and marketable title to the 400E Series CPU and Trade-In Networks, free and clear of all liens, encumbrances, rights, title and interests of others arising out of Purchaser's actions, and Purchaser further warrants that it has obtained all necessary approvals to enter into this Contract, including returning the 400E Series CPU

and Trade-In Networks to Nortel Networks. Purchaser warrants that, as of the date Nortel Networks deinstalls or Purchaser delivers to Nortel Networks the 400E Series CPU and Trade-In Networks, the 400E Series CPU and Trade-In Networks shall be in substantially the same condition as on the date the 400E Series CPU and Trade-In Networks were last operating prior to being replaced.

12. EXCLUSION OF WARRANTIES AND LIMITATION OF REMEDIES AND LIABILITY - THE WARRANTIES AND REMEDIES SET FORTH ABOVE CONSTITUTE THE ONLY WARRANTIES OF NORTEL NETWORKS OR CORPORATION AND PURCHASER'S ONLY REMEDIES IN THE EVENT SUCH WARRANTY IS BREACHED. SUCH WARRANTIES ARE IN LIEU OF ALL OTHER WARRANTIES PERTAINING TO THE GENERICS, HARDWARE AND/OR THE INSTALLATION, WRITTEN OR ORAL, STATUTORY, EXPRESS OR IMPLIED, INCLUDING, WITHOUT LIMITATION, ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR AGAINST INFRINGEMENT. NEITHER NORTEL NETWORKS NOR CORPORATION SHALL BE LIABLE FOR ANY INCIDENTAL OR CONSEQUENTIAL DAMAGES OF ANY NATURE WHATSOEVER.

13. REMEDIES - In the event of any material breach of this Contract by either party which continues for thirty (30) or more days after detailed written notice of such breach has been given to the breaching party, the aggrieved party shall be entitled to pursue any remedies available at law or equity; except that in no event shall NORTEL NETWORKS OR CORPORATION BE LIABLE FOR INDIRECT, SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES OF ANY NATURE WHATSOEVER OR FOR ANY REASON, EVEN IF NORTEL NETWORKS HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, AND NORTEL NETWORKS' LIABILITY UNDER SECTION 11 SHALL NOT BE GREATER THAN THAT DESCRIBED THEREIN.

14. FORCE MAJEURE - Nortel Networks shall not be liable for any loss or damage resulting from any cause beyond its reasonable control, such as, but not limited to, compliance with any law, order, regulation, ordinance, requirement of any governmental authority, fire, explosion, epidemic, act of nature, unavailability of supplies or energy, power failure, breakdown of machinery, acts of third parties, acts of civil or military authority, war, revolution, civil disturbance or labor disputes such as strikes, slowdowns, picketing or boycotts. Upon the occurrence of any such event and to the extent such occurrence interferes with Nortel Networks' performance of this Contract, Nortel Networks shall be excused from performance during the period of such interference, but no

such delay shall be grounds for termination by Purchaser of this Contract or shall result in the imposition of any increased obligation on the part of Nortel Networks.

15. **HAZARDOUS MATERIALS AND SUBSTANCES** - Purchaser shall identify and shall notify Nortel Networks in writing of the existence of any Hazardous Materials which Nortel Networks may encounter during the performance of services hereunder by Nortel Networks consisting of removal of any existing central office equipment and/or during the Installation of any Generics and/or Generic Hardware purchased pursuant to this Contract. Purchaser shall also identify and inform Nortel Networks in writing of the existence of any Hazardous Materials contained within any equipment removed by Nortel Networks from Purchaser's location pursuant to this Contract. For purposes of this Section, "Hazardous Materials" shall mean any pollutants, dangerous substances, toxic substances and/or hazardous substances (including, without limitation, asbestos) as defined in, or pursuant to, the OSHA Hazard Communication Standard (29 CFR Part 1910, Subpart Z), the Resource Conservation and Recovery Act of 1976 (42 U.S.C. Section 6901, et seq.), the Toxic Substances Control Act (15 U.S.C. Section 2601, et seq.), the Comprehensive Environmental Response Compensation and Liability Act (42 U.S.C. Section 9601, et seq.) or any other federal, state or local environmental law, ordinance, rule or regulation. If Purchaser fails to notify Nortel Networks of the existence of such Hazardous Materials and Nortel Networks, during the performance of services hereunder, discovers that Hazardous Materials are present, Nortel Networks may, at Nortel Networks' election, and without penalty, discontinue the performance of such services until the Hazardous Materials have been removed or abated by Purchaser, at Purchaser's sole expense. Purchaser shall defend, indemnify and hold harmless Nortel Networks for any loss or damages resulting from a breach of this Section 15.

16. **GENERAL** - Purchaser shall not assign this Contract or any rights hereunder. This Contract constitutes the final, complete and exclusive Contract between the parties hereto and may be modified only in a writing signed by an authorized representative of each party. Unless an affirmation, representation, or warranty concerning the Generics and/or Generic Hardware made by an agent, employee, or representative of Nortel Networks is specifically included within this Contract, it shall not be enforceable by Purchaser. The rights and obligations of the parties and all interpretations and performance of this Contract shall be governed in all respects by the laws of the State of North Carolina, except for its rules with respect to the conflict of laws. Nortel Networks reserves the right to subcontract any portion of its obligations under this Contract. Purchaser

warrants that it does not intend to, and will not knowingly, without the prior written consent, if required, of the Office of Export Administration of the U.S. Department of Commerce, ship or transmit any technical information, documentation or know-how disclosed to it hereunder or the direct product thereof, directly or indirectly, to any country, except to the extent permitted by applicable law. Purchaser shall treat all technical and pricing information supplied by Nortel Networks under this Contract as property of Nortel Networks and shall hold such information in confidence using the same degree of care as Purchaser uses with respect to Purchaser's confidential information of a similar nature, indemnifying Nortel Networks and/or its suppliers as appropriate for any loss or damage resulting from a breach of this Section 16.

APR. -20' 01 (FRI) 10:03 VIOLA HOME TELEPHONE

NORTEL NETWORKS

INVOICE

NO. *** B1466158 ***
QUOTE INVOICE NUMBER AND
DATE ON ALL CORRESPONDENCE

PAGE 1

SOLD TO:				REMIT TO:				
VIOLA HOME TELEPHONE COMPANY 1303 16TH AVENUE P. O. BOX 309 VIOLA, IL 61486				Nortel Networks Inc. 3985 Collection Center Drive Chicago IL 60693				
SHIP TO:				TERMS		PURCHASE ORDER NO.		
				NET 30 DAYS		SR10AGRMNT		
				INVOICE DATE		CUSTOMER ID		
				03/30/01		2226500		
SHIP DATE	ORDER ID	JOB NO.	SITE LOCATION	ADDRESS CODE - GEO CODE				
	HH9193	HH9193	VIOLA, IL	01 141314987				
LINE NO.	QUANTITY	CPC CODE	DESCRIPTION		UNIT PRICE	TOTAL AMT		
501 UPGRADE FOR DMS-10 PER SR-10 AGREEMENT FOR VIOLA, IL CUSTOMER REQUESTS 100% INVOICING AT DELIVERY								
0050	1.00		NTI MATERIAL		20367.00	20367.00		
0060	1.00		APPLICATION SOFTWARE		12200.00	12200.00		
0070	1.00		ENGINEERING		3100.00	3100.00		
0080	1.00		INSTALLATION		2333.00	2333.00		
0090	1.00		DOCUMENTATION		2000.00	2000.00		
0100	1.00		SALVAGE CREDIT		5000.00-	5000.00-		
0120	1.00		NTI MATERIAL (CHANGE ORDER 1)		1800.00	1800.00		
<p>IF THERE ARE ANY QUESTIONS CONCERNING THIS INVOICE PLEASE CONTACT: MARK JOSEPH - 972-685-0593</p> <p>PLEASE CHECK THE REMIT TO ADDRESS ON THIS INVOICE... WE HAVE MADE SOME CHANGES..... THANK YOU.</p>								
<p>NOTE- PAST DUE AMOUNTS MAY INCUR INTEREST CHARGES.</p> <p>ORDER SUBJECT TO TERMS AND CONDITIONS OF SALES CONTRACT.</p> <p>MATERIAL MUST NOT BE RETURNED WITHOUT OBTAINING WRITTEN AUTHORIZATION</p>					SUBTOTAL			\$36,800.00
					SALES TAX			
					PREPAID FREIGHT			
					TOTAL AMOUNT			\$36,800.00

Viola Home Telephone Company

Illinois Universal Service Funding Calculation

Based upon ICC Form 23A Report Data for December 31, 2000

Line #	Description	Source	Amount	Adjustment	Adjusted Amount
1	Net Regulated Plant	Form 23A, P 8, Net Plant	\$ 1,297,911	\$ 75,700	\$ 1,373,611
2	Materials and Supplies Inventory	Page 2, 13-Month Average	24,003		24,003
3	Customer Deposits	Form 23A, P 8, 4040	4,604	-	4,604
4	ADIT - Regulated Plant	Form 23A, P 8, 4100 + 4340	94,034	-	94,034
5	Rate Base before Working Capital	line 1 + line 2 - line 3 - line 4			1,298,976
6	Working Capital Requirement				
7	Total Operating Expenses	Form 23A, P 14, Total	525,170	-	525,170
8	Less: Depreciation Expense	Form 23A, P 13, 6560	136,637	-	136,637
9	Total WC Operating Expense	line 7 - line 8	388,533	-	388,533
10	WC OE Requirement	line 9 * 45 / 360			48,567
11	Commission-Ordered Cash Balance Requirement		-	-	-
12	Total Working Capital Requirement	line 10 + line 11			48,567
13	Total Rate Base	line 5 + line 12			1,347,543
14	Total Operating Revenues	Form 23A, P 11, Total	670,798	3,252	674,050
15	Less: Illinois High Cost Fund	12,000		-	12,000
16	Net Operating Revenues	line 14 - line 15	658,798	3,252	662,050
17	Total Operating Expenses	Form 23A, P 14, Total	525,170	-	525,170
18	Other Operating Inc and Exp - Net	Form 23A, P 15, 7100	-	-	-
19	Other Operating Taxes	Form 23A, P 15, 7240	2,776	-	2,776
20	Net Op Inc before Income Taxes	line 16 - lines 17, 18, & 19	130,852	3,252	134,104
21	Income Tax Expense	line 34			51,951
22	Net Operating Income	line 20 - line 21			82,153
23	Return on Rate Base	line 22 / line 13			6.10%
24	After-tax Cost of Capital				11.21%
25	Target Net Operating Income	line 24 * line 13			151,060
26	Adj to Achieve Target Return on RB	line 25 - line 22			68,907
27	Gross Revenue Conversion Factor	line 35			1.6324
28	ROR Funding Deficiency Including Inc Taxes	line 26 * line 27			112,484
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	line 20			134,104
31	Illinois Inc & Rep Tax Expense	line 30 * 7.18%			9,629
32	Net Op Inc before Fed Inc Tax	line 30 - line 31			124,475
33	Federal Income Tax Expense	line 32 * 34.00%			42,322
34	Total Imputed Income Tax Expense	line 31 + line 33			51,951
35	Gross Revenue Conversion Factor	1 / ((1 - .0718) * (1 - .34))			1.6324

Viola Home Telephone Company
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2000
Material & Supplies Worksheet and Other Information

Line #

1	December-99	\$20,271
2	January-00	\$20,271
3	February-00	\$20,271
4	March-00	\$20,271
5	April-00	\$20,271
6	May-00	\$20,271
7	June-00	\$20,271
8	July-00	\$20,271
9	August-00	\$20,271
10	September-00	\$20,759
11	October-00	\$20,759
12	November-00	\$20,759
13	December-00	\$67,321
14	13 Month Average	\$24,003

Sale/Lease Back Arrangement
☒

The company does not have any sale(s)/lease back arrangement.

☐

The company does have sale(s)/lease back arrangement and has provided additional information to staff.

Lease Agreement with Affiliates
☒

The company does not have any lease agreements with affiliates.

☐

The company does have lease agreements with affiliates and has provided additional information to staff.

Trial Balances

The Company has provided a copy of its 12/31/2000 trial balance in support of the attached exhibits.

Viola Home Telephone Company
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2000
Operating Revenues By Category

<u>Line #</u>		<u>Source</u>	<u>Amount</u>
		Form 23A, P 10, Total Local	
1	Local Revenues	Network Service Revenues	\$ 46,529
2	State Subscriber Line Charges	Trial Balance 12/31/00	\$ 92,438
3	State Access Revenues	Trial Balance 12/31/00	\$ 203,651
4	State High Cost Support	Exhibit X, Line 15	\$ 12,000
5	State Special Access Revenues	Trial Balance 12/31/00	\$ 16,946
6	Total State Access & Local Revenues	Sum (Ln 1 - 5)	\$ 371,564
7	Federal Subscriber Lines Charges	Trial Balance 12/31/00	\$ 38,125
8	Federal Access Revenues	Trial Balance 12/31/00	\$ 139,068
9	Federal High Cost Support	Trial Balance 12/31/00	\$ 97,356
10	Federal Special Access Revenues	Trial Balance 12/31/00	\$ 1,411
11	Total Federal Access Revenues	Sum (Ln 7 - 10)	\$ 275,960
12	Misc Revenues	Trial Balance 12/31/00	\$ 23,274
13	Total Operating Revenues	Ln 6 + Ln 11 + Ln 12	<u>\$ 670,798</u>

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Viola Home Telephone Company
Summary of Adjustments

Adjustment 1

Dr. Cr.

RTB Stock none

To record RTB Class B stock in rate base.

Adjustment 2

To record Midwest Cable Splicing, Inc. contract dated January 16, 2001 for fiber route project to begin approximately May 2001.

attached \$ 37,000

Adjustment 3

To record Materials & Supplies purchased for the above contract which was billed in April from another company.

attached \$ 3,700

Adjustment 4

To record Nortel Networks contract for DMS-10 SR-ten switching equipment (not delivered as of 12/31/00).

Contract amount - detail

attached \$ 35,000

Adjustment 5

Additional Projected 2001 HCL Revenue

\$ 3,252

\$ 75,700